HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Gatineau[1]

CANADA MORTGAGE AND HOUSING CORPORATION

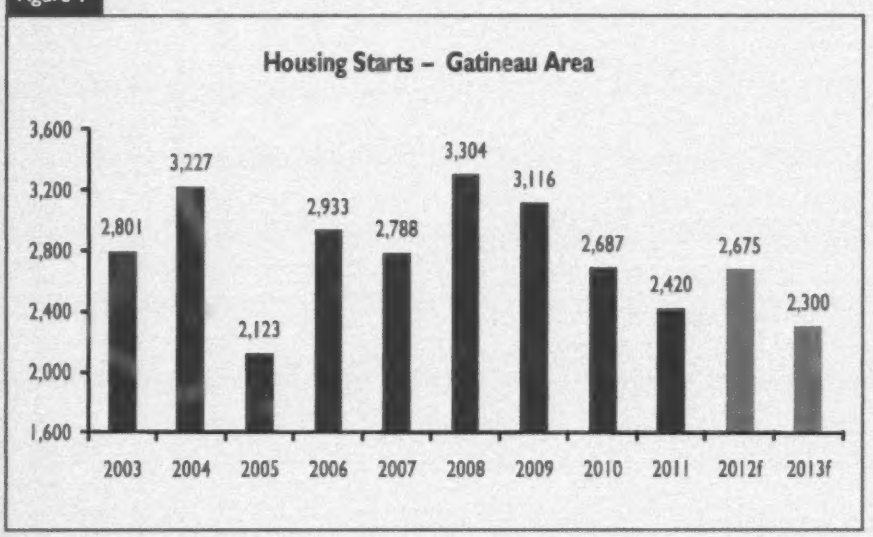
Date Released: Fall 2012

Gatineau area housing starts and MLS® sales to decrease in 2013[2]

In 2012, housing starts will increase by 11 per cent from 2011, to 2,675 units. The economic and demographic environment will be less favourable next year, however, and housing starts will reach 2,300 units, down 14 per cent year over year.

As for MLS® sales, they will remain relatively stable this year, attaining 3,850 units. It should be recalled that MLS® sales had hit a low point in 2011. In 2013, a host of factors allow us to predict a slight decrease in MLS® sales (3,825 units, -1 per cent).

Figure 1



Source: CMHC f: CMHC forecasts

[1] Quebec part of Ottawa-Gatineau CMA

[2] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of October 17, 2012.

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Labour market fuelled by private sector

In 2011, 172,500 people were employed in the Gatineau area, for an increase of 2 per cent from 2010. This gain concealed different realities, however: while employment grew in the private sector, it decreased in the public sector. Qualitatively, this is exactly the same scenario that will occur again this year and next year.

In 2012 and 2013, the number of employed people will remain relatively stable, as the job losses in the public sector will be offset only by the gains in the private sector. It should also be mentioned that the economic uncertainty at the local and global levels will restrict hiring opportunities in the area next year. The stability of the labour market will therefore support the Gatineau housing market in 2013, but will not contribute to its growth.

Small decrease in net migration

In 2011, net migration in the Gatineau area reached some 2,600 people, a level similar to the average of the last five years. This level represented a record number of immigrants and was also attributable to the appeal of Gatineau's labour market over the past few years. In 2012 and 2013, we expect this migration context to remain, but the net level should decrease slightly.

For one thing, the weaker job prospects forecast for Gatineau in 2012 and 2013 will cause the number of Quebec and Canadian households wanting to settle in the area to decrease. In the final analysis, we expect that the housing market will benefit from migration gains of some 2,500 people in 2012 and 2013. In addition, the decrease in the immigration targets at the provincial level will without a doubt have an impact on net migration in the Gatineau area. Preliminary data from Quebec's Ministère de l'Immigration et des Communautés culturelles indicate that the number of immigrants planning to settle in the Gatineau area was on the decline in the past few quarters. This fall in net migration therefore means that a smaller number of potential buyers and renters from outside the Gatineau area will be present on the real estate market this year and next year.

Mortgage rates

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

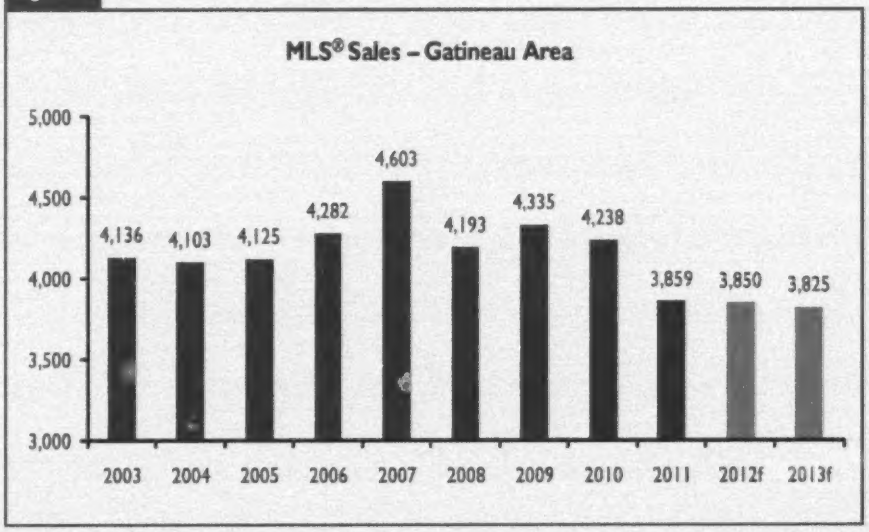
According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

MLS® sales to drop next year

After hitting a low point last year, MLS® sales will likely not rebound in 2012, as this year will end with 3,850 units sold, a number practically identical to the level reached in 2011. We anticipate that the losses recorded in the last two quarters of 2012 will totally negate the gains made at the beginning of the year.

This decline at the end of the year can be attributed to the weak labour market and the recent changes made to the regulatory framework for the Canadian mortgage market. The low mortgage rates will therefore be one of the only factors having sustained the housing market throughout

Figure 2



Source: QFREB by Centris® f: CMHC forecasts

the year in Gatineau. In 2013, this stagnation in home sales in the MLS® system will continue, with 3,825 transactions (-1 per cent). This means that MLS® sales will remain below the 3,900-unit mark for the third year in a row in the Gatineau area. This situation contrasts with previous years, as MLS® sales rarely fell below 4,100 units during the period from 2002 to 2010.

Many factors will account for the stagnation next year. In fact, the potential mortgage rate increase and the regulatory framework in force will restrict sales on the resale market. As well, the fact that the labour market will be at a standstill in the Gatineau area will prevent sales from increasing. The economic uncertainty will also likely cause a decrease in intentions to buy resale properties. Finally, the decline in net migration anticipated for Gatineau next year will result in the presence of fewer potential buyers in the area in 2013.

The supply of properties for sale in the MLS® system in the Gatineau area will follow a totally different trend from sales next year. Since mid-2011, active listings have in fact been on a strong upward trend. The expected slowdown in sales next year will help maintain a greater number of homes on the market in 2013. Also, the rise in new listings observed in the Gatineau area for the past few quarters will contribute to increasing the supply over the next few months.

The faster rise in supply than demand in 2013 suggests that the market will become balanced next year. This easing of the market will bring about a slightly smaller increase in the average price in 2013 (+2.5 per cent). The average MLS® price will then reach $248,500. It should also be mentioned that the analysis of the Gatineau market by sector showed that the average price should rise less significantly in the outlying zones of the metropolitan area. In these various municipalities, the market is already favouring buyers, a situation that is normally characterized by smaller price increases.

Multi-unit housing starts to decline next year

Single-detached home starts have been decreasing for the past few years in the Gatineau area. This year and next will be no exception, as 725 units of this type should get under way in 2012 and 675 more in 2013, for decreases of approximately 7 per cent in both cases. In the context of a stagnant labour market and uncertainty, these drops can be explained in part by the fact that single-detached homes are generally less affordable than other housing types, which limits the number of potential buyers for such houses. As well, the rising land prices observed over the past few years in the Ottawa-Gatineau census metropolitan area appears to have prompted builders to shift away from single-detached homes in favour of multi-unit housing (semi-detached houses, row homes and apartments). In addition, the rise in supply on the resale market will also increase competition for new single-detached homes next year.

Since the beginning of 2012, multi-unit housing starts have largely offset the decrease in activity in the single-detached housing segment. Foundations will be laid for close to 2,000 multiple units this year, for an increase of 19 per cent year over year. This gain will be mainly attributable to the construction of many large condominium and rental housing projects (including social housing).

With these projects all moving forward together this year and the economic environment that will be prevailing, it is quite reasonable to expect a decrease in multi-unit housing starts next year. The strongest decline will be especially felt in the case of new rental units[3], for which the construction level will be more in line with the volumes of previous years (450 units in 2013, versus 750 units in 2012).

Semi-detached and row homes, for their part, will record a slight decrease next year with 625 units, compared to 650 units in 2012. The affordability of houses of this type allows them to post a relatively better performance than single-detached homes.

While there were only a few in the early 2000s in Gatineau, condominiums apartments now account for more than 20 per cent of the housing starts in the area. This rise can be attributed to the fact that condominiums are a housing type that can meet the needs of several client groups. In 2013, starts of condominiums, contrary to the other housing types, will remain relatively stable, at around 550 units. The significant increase in condominium listings on the resale market will, however, dampen the momentum in this market segment.

Just like in 2012, several condominium projects could also be started on the île de Hull in 2013, including one large

[3] Including duplex units.

complex of nearly 150 units. It should be recalled that, in line with the City's current policy, a property tax grant is available for new buildings with three or more storeys in the Hull sector.

In all, multi-unit housing starts should exceed 1,600 units next year, for a decrease of 17 per cent from this year. This decline in the multi-unit segment will contribute to a drop in housing construction in the Gatineau area next year, as foundations will be laid for some 2,300 units, down 14 per cent from 2012. On the geographic front, Aylmer and Gatineau will still see the most construction in 2013, thanks to the lots that are available there.

Let us mention that a revision of the City of Gatineau land use and development plan is under way. The revised plan, which should come into effect in 2014, will no doubt have an impact on housing activity in the various sectors of the city of Gatineau over the next few years. We will discuss these potential impacts once more details are available.

Rental market to remain stable

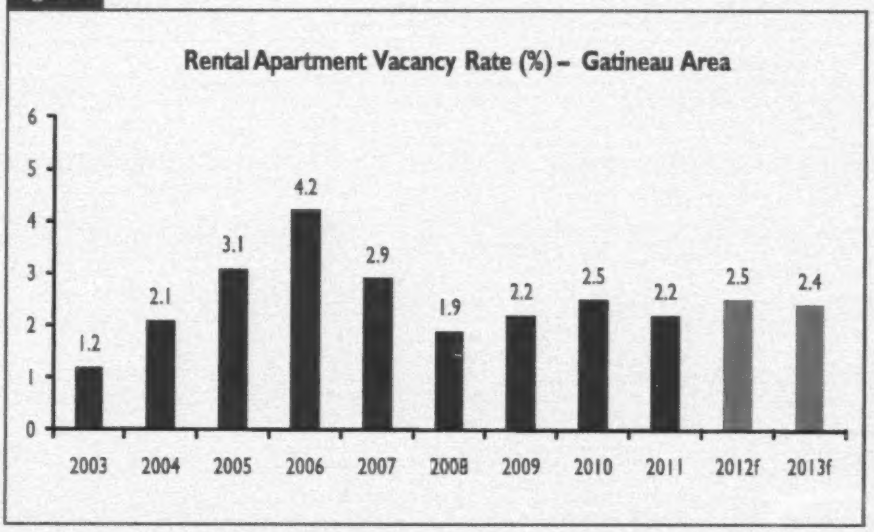
The rental housing vacancy rate was 2.2 per cent in 2011 in the Gatineau area, a rate relatively similar to the levels posted in the last four years. In 2012 and 2013, the market should remain relatively stable, with vacancy rates hovering around 2.5 per cent.

On the supply side, some 200 units should be added to Gatineau's rental housing stock in 2012 and 2013, a moderate increase overall. Demand for rental apartments fuelled by immigrants and people from elsewhere in Quebec and Canada coming to settle in the Gatineau area will decrease slightly, as a drop in net migration is expected. The construction of a relatively significant number of condominiums this year and next will also continue to provide competition for the rental units in the Gatineau market.

The average monthly rent for two-bedroom apartments is expected to reach $745 in 2012 and $760 in 2013.

In the retirement rental market segment, the vacancy rate (17.6 per cent in 2012) should continue to fall by about two percentage points in 2013, as a result of a stable supply of units—no new privately initiated construction is planned—and an increase in the population aged 75 years or older in the area, the main client group for retirement homes.

Figure 3



Source: CMHC f: CMHC forecasts

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Forecast Summary Gatineau CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market[1]							
MLS® Sales	4,335	4,238	3,859	3,850	-0.2	3,825	-0.6
MLS® Active Listings	2,181	1,825	1,930	2,250	16.6	2,550	13.3
MLS® Average Price ($)	206,005	218,620	234,268	242,500	3.5	248,500	2.5
New Home Market							
Starts:							
Single-Detached	1,056	910	784	725	-7.5	675	-6.9
Multiples	2,060	1,777	1,636	1,950	19.2	1,625	-16.7
Starts - Total	3,116	2,687	2,420	2,675	10.5	2,300	-14.0
Average Price ($):							
Single-Detached	261,948	310,479	346,788	390,000	12.5	395,000	1.3
New Housing Price Index (% chg.) (Ottawa-Gatineau)	1.5	4.0	3.0	2.4	-	2.0	-
Rental Market[2]							
October Vacancy Rate (%)	2.2	2.5	2.2	2.5	-	2.4	-
Two-bedroom Average Rent (October) ($)	690	711	731	745	-	760	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	168,300	168,800	172,500	172,500	0.0	172,500	0.0
Employment Growth (%)	-1.1	0.3	2.2	0.0	-	0.0	-
Unemployment rate (%)	5.9	6.6	6.8	6.2	-	6.9	-
Net Migration	3,027	2,410	2,641	2,550	-3.4	2,500	-2.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®. CMHC Forecast (2012-2013)

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